Revised Regulatory Proposal
Fleet, Tools and Equipment
Capex Summary

ERGON ENERGY NETWORK | energex

Part of the Energy Queensland Group

Executive Summary

The AER's Other Non-Network capex assessment considers forecast expenditure within two sub-categories:

- Fleet, including vehicles, mounted plant and related items; and
- Tools and Equipment.

Through the Draft Decisions (DDs), the AER included substituted amounts for the Energex and Ergon Energy Fleet sub-categories, as well as the Ergon Energy Tools and Equipment sub-category. The AER accepted the Energex Tools and Equipment forecast as reflective of prudent and efficient costs.

Energex and Ergon Energy appreciate the feedback and perspectives provided by the AER and our customers through the DD process. In the Revised Regulatory Proposals (RRPs) we therefore:

- acknowledge the AER's acceptance of Energex's Tools and Equipment forecast;
- accept the AER's substitute position on Tools and Equipment for Ergon Energy; and
- take the opportunity through the RRP to provide revised Fleet forecasts for Ergon Energy and Energex that address the concerns raised by the AER in the DDs.

Contents

1 Introduction

This document summarises the changes Energex and Ergon Energy have made from the Regulatory Proposals (RPs) to the Revised Regulatory Proposals (RRPs) for Other Non-Network Fleet, Tools and Equipment capex in response to feedback received from the AER and our customers.

2 AER Draft Decisions

The AER's Other Non-Network capex assessment considered capex within two sub-categories:

- Fleet, including vehicles, mounted plant and related items; and
- Tools and Equipment.

Through the Draft Decisions (DDs), the AER included substituted amounts for the Energex and Ergon Energy Fleet sub-categories, as well as the Ergon Energy Tools and Equipment sub-category. The AER accepted the Energex Tools and Equipment forecast as reflective of prudent and efficient costs.

2.1 Fleet

Fleet capex comprises the largest component of Other Non-Network capex. It includes expenditure for light fleet (i.e. cars and light commercial vehicles) and heavy fleet including mounted plant (i.e. elevated work platforms, crane borers and other heavy commercial vehicles).

Through the DDs, the AER noted that the total forecast for Energex and Ergon Energy's Fleet expenditure exceeded their assessment. The AER undertook a more detailed bottom-up assessment of the respective RPs, concluding that the forecasts did not reflect prudent and efficient costs, noting concerns[1] with respect to:

- Crane borer service lives
- Historical service lives
- Unit rates
- Additional emergency vehicles (Ergon Energy)
- Private use of vehicles
- Electric vehicles for passenger fleet (Energex)

On this basis, the AER substituted Fleet capex amounts for Ergon Energy and Energex reflecting a 14% reduction of the respective forecasts.

2.2 Tools and Equipment

The AER noted that Ergon Energy's RP forecast for Tools and Equipment capex was based on historical costs per employee. In reviewing Ergon Energy's actual expenditure across the 2015-18 period in this sub-category, the average expenditure per employee was identified to be lower. The AER's substituted amount therefore reflects this lower average amount.

[1] AER Draft decision – Ergon Energy 2020–25, Attachment 5: Capital expenditure, Page 5-70 - 5-73
AER Draft decision – Energex 2020–25, Attachment 5: Capital expenditure, Page 5-67 - 5-70

3 Energex and Ergon Energy RRPs

Energex and Ergon Energy appreciate the feedback and perspectives provided by the AER and our customers through the DD process. In the Revised Regulatory Proposals (RRPs) we therefore:

- acknowledge the AER's acceptance of Energex's Tools and Equipment forecast;
- accept the AER's substitute position on Tools and Equipment for Ergon Energy; and
- take the opportunity through the RRP to provide revised Fleet forecasts for Ergon Energy and Energex, that address the concerns raised by the AER in the DDs as outlined in the following sections.

3.1 Fleet modelling

In the lead up to the DDs, several discussions were held between the AER and Energy Queensland, with the AER sharing their assessment approach and expectations of standardising fleet forecast modelling. We agree with the AER on the merits of a more standardised approach to modelling fleet forecasts. In response, we have redeveloped the Energex and Ergon Energy Fleet models[2] for the RRPs.

Crane Borers

Energy Queensland has undertaken an engineering assessment of recent 10 year major inspections (10 YMI) of crane borer plant and vehicles in revising their forecasts in this category. This assessment has concluded that refurbishment of crane borer plant is viable in most circumstances. However, while the plant may generally be extended to a total service life of 20 years, it is not feasible to assume that the underlying vehicle chassis can similarly be extended for such a duration[3]. As such, our RRP forecasts incorporate re-trucking and refurbishment of 97% of crane borer plant at 10 years. Energy Queensland will monitor all refurbishment activity through the 2020-25 regulatory period to develop a more deterministic refurbishment rate for the 2025-30 RPs.

Additional emergency response vehicles (Ergon Energy)

The revised forecast excludes acquisition of specialised emergency response vehicles. Emergency events will be monitored across the coming period to inform a business case on the future adoption of these specialised fleet assets.

Consistent service lives and lead times

The revised modelling adopts a consistent, rigorous approach to application of forecast age or kilometre-based service life replacements based on each fleet asset's in-service date.

As agreed in discussions with the AER, the revised modelling incorporates a 6 month lead time for heavy commercial vehicles in recognition of the vendor procurement and fitment lead times in the replacement of heavy vehicles and plant.

While the previous Ergon Energy model incorporated refurbishment of mobile elevated work platform (EWP) and vehicle loading cranes (VLC) at individual unit levels, the revised model adopts an overall refurbishment rate across applicable asset types based on historical data.

For Energex, a small number of trailer mounted 500KVA generators have been retained beyond their designated 10 year life in the 2015-20 period. Based on the current period experience, a refurbishment rate of 37.5% has been applied to this asset group for the coming 2020-25 period.

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[2] **Energex Revised Fleet Model**: xx.xxx Fleet Model DEC19 CONFID
Ergon Energy Revised Fleet Model: xx.xxx Fleet Model DEC19 CONFID

[3] **Crane Borer Refurbishment Assessment**: EGX ERG xx.xxx Crane Borer Assessment DEC19 CONFID

Unit rates

In response to the AER's feedback, a detailed review of unit rates has been undertaken in preparation of the revised fleet forecasts for the RRPs. This has involved further analysis of historical general ledger transactions, invoices and contracts wherever applicable. This has resulted in a blend of increased and decreased unit rates across the fleet, with unit rates being sourced from:

a) averaging of historical general ledger transactions for equivalent fleet units, escalated to 2018/19 real terms;
b) contracts and/or historical invoice amounts (typically larger fleet assets), escalated to 2018/19 real terms;
c) identification of equivalent fleet units where reliable ledger or historical invoicing information is not available; or
d) original estimates provided through the RPs.

Excel spreadsheets[4] and companion ZIP files[5] have been provided with the Ergon Energy and Energex RRPs, itemising the unit rates used for the revised forecasts, the source of each unit rate and supporting evidence.

Electric vehicles (Energex)

The revised forecast excludes acquisition of electric vehicles.

As an energy focussed business, Energy Queensland has a responsibility to act as a community leader enabling the prudent deployment of innovative transportation solutions. We will continue to monitor and support the progressive growth of EVs within the Australian market over the coming period.

Private use of vehicles

A small number of vehicles in the car and light commercial vehicle (LCV) categories include an employee "private use" provision, with running costs offset by employee contributions. In the RRPs the replacement capex forecast for applicable vehicles has been proportionally reduced to reflect this arrangement.

Fleet stock volumes

The Fleet capex in the RPs incorporated a top-down reduction to the overall fleet program forecasts for Ergon Energy and Energex. This manual adjustment was based on vehicle asset life extensions (i.e. 5 to 7 year and 120,000 to 140,000km service lives), exclusion of some LCV fleet from the forecasts, and draft strategic initiatives to be outworked across the 2020-25 period. This top-down adjustment has been incorporated in the RRPs through detailed reforecasting of each of the vehicle categories, including service life extensions as well as crane borer and other major plant refurbishments. This detailed modelling and reforecasting has applied improvements equivalent to those originally intended through the top-down adjustments. As a result, the RRP Fleet capex forecasts are now lower than the original RP Fleet capex forecasts which included the manual adjustments.

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4 **Energex Fleet Unit Rates List**: EGX 6.026 Fleet Unit Rates List DEC19 CONFID
Ergon Energy Fleet Unit Rates List: ERG 6.039 Fleet Unit Rates List DEC19 CONFID

5 **Energex Fleet Unit Rates Supporting Evidence**: EGX 6.026 Fleet Unit Rates List Att 1 DEC19 CONFID
Ergon Energy Fleet Unit Rates Supporting Evidence: ERG 6.039 Fleet Unit Rates List Att 1 DEC19 CONFID